



The Navajo Nation

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Indirect Cost Training

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Acumen. Agility. Answers.

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ALLOWABLE COSTS AND COST PRINCIPLES

General

- **2 CFR, Part 225*** (formerly Circular A-87) defines allowable cost principles
- **Costs must be:**
 - ❖ Necessary
 - ❖ Reasonable
 - ❖ Allocable
 - ❖ Legal under state & local law
 - ❖ Conform with Federal law & grant terms
 - ❖ Consistently treated
 - ❖ Comply with Generally Accepted Accounting Procedures (GAAP)
 - ❖ Not included as match
 - ❖ Net of credits
 - ❖ Adequately documented

*Code of Federal Regulations (2 CFR), Subtitle A, Chapter II, part 225

ALLOWABLE COSTS AND COST PRINCIPLES

Necessary

- Necessary for the execution of the grant terms or administration of the grant
 - ❖ Necessary – Is the purchase necessary for executing the grant?
 - ✓ Are we acquiring a surplus?
 - ✓ Do we already have existing resources we can utilize?
 - ✓ Have we spent the minimum amount to meet our needs?

Reasonable

- Reasonable purchase at fair market price
 - ❖ Reasonable – Is the expense amount valid?
 - ✓ Did we pay a fair and competitive price? Can we prove it?
 - ✓ Are we be comfortable defending this purchase?

ALLOWABLE COSTS AND COST PRINCIPLES

Allocable

- Directly related to and a benefit to the grant program
- Can only charge in proportion to value received by the program
 - ❖ If an employee is used 50% of the time for a program, you can charge half of the salary expense only.

Legal under state & local law

- Purchasing illegal items with Federal funds is not allowed

Conform with Federal law & grant terms

- Purchases must be legal and consistent with the terms of executing the grant terms

ALLOWABLE COSTS AND COST PRINCIPLES

Consistently Treated

- The expense cannot be designated as a direct cost if indirect under state programs

Complies with GAAP

- Generally Accepted Accounting Principles
 - ❖ Expenditures should be recorded under the recognition principles dictated by GAAP.

Not included as a Match*

- Not part of a match from another program

*However, this general rule is not applicable to funds received under P.L. 93-638

ALLOWABLE COSTS AND COST PRINCIPLES

Net of Applicable Credits

- When recording and tracking expenditures, remember to reduce by:
 - ❖ purchase discounts, rebates, allowances, or insurance refunds

Adequately Documented

- How funds were used and justify how it serves the grant program if necessary
- Capture the share of costs provided by other sources vs. grant funds

ALLOWABLE COSTS AND COST PRINCIPLES

Here are a few examples of what is disallowed under 2 CFR, Part 225:

- ❖ Advertising
- ❖ Alcoholic beverages
- ❖ Bad debts
- ❖ Donations and contributions
- ❖ Donated Services
- ❖ General Govt. expenses – including judiciary, Tribal court, enrollment and election, police, fire services, and more than 50% of the Tribal Council*
- ❖ Selling and marketing
- ❖ Entertainment

*See Next Slide for expanded discussion

ALLOWABLE COSTS AND COST PRINCIPLES

General Government Expenses

- The Interior Business Center (IBC) formerly(NBC) will continue the practice of accepting up to 50% of the portion of salaries and expenses directly attributable to managing Federal programs by the Chief Executive and his/her staff, including Tribal Council.
- More than 50% of the portion of these expenses can be accepted **IF**
 - ❖ Documented proof of why the expenses should be allowed at greater than 50% must be submitted to the IBC
 - ❖ Salaries should be documented by certified payroll
 - ❖ Policies surrounding this matter must be provided to the IBC

THE INDIAN SELF-DETERMINATION AND EDUCATION ASSISTANCE ACT OF 1975 (PUBLIC LAW 93-638)

General Background

- P.L. 93-638 authorized the Secretaries of the DOI, Health, Education, and Welfare, and some other government agencies to enter into contracts with, and make grants directly to, federally recognized Indian tribes. The tribes would have authority for how they administered the funds, which gave them greater control over their welfare.
- Intended to allow Tribes to manage their own affairs more efficiently, rather than waiting for projects to be managed by a federal agency.

Contract Support Cost (CSC) Policy

- The BIA and IHS have established formal policies that provide guidance to in the preparation and negotiation of requests for contract funding, including contract support costs. The BIA and IHS policies are identical
 - ❖ IHS Policy is Part 6, Chapter 3 in the Indian Health Manual
 - http://www.ihs.gov/ihtm/index.cfm?module=dsp_ihm_pc_p6c3#6-3.1
 - ❖ BIA Policy was formalized in 2006 in the following Policy Memo:
 - [http://www.ncai.org/policy-issues/tribal-governance/budget-and-appropriations/contract-support/BIA National Policy Memo on CSC -NPM-SELD-1-.pdf](http://www.ncai.org/policy-issues/tribal-governance/budget-and-appropriations/contract-support/BIA%20National%20Policy%20Memo%20on%20CSC%20-NPM-SELD-1-.pdf)

CSC POLICY

Policy. The BIA and IHS will provide for a uniform and equitable system of distributing CSC funds to new and existing P.L. 93-638 compacts and contracts and preserve and support each awardee's right to contract under P.L. 93-638.

What does this really mean?

- Total contract costs (including CSC) are eligible to be paid as either startup, direct, or indirect costs. Since Tribes often operate more than one program, many of the costs incurred are paid through an indirect cost allocation process. Therefore, it is important to distinguish between a Startup Cost, Direct CSC, and Indirect CSC
 - ❖ Startup costs consist of the reasonable costs that have been incurred or will be incurred on a one-time basis pursuant to the contract necessary to plan, prepare for, and assume operation of the PFSA that is the subject of the contract; and to ensure compliance with the terms of the contract and prudent management
 - ❖ Direct contract support costs (DCSC) pay for activities that are not contained in either the IDC pool (or indirect-type cost budget). Direct contract support costs may be incurred directly by the awardee or by an eligible sub-awardee. Direct contract support costs amounts are awarded on a recurring basis. Funds for DCSC need not be rejustified each year.
 - ❖ Indirect contract support costs (IDCSC) are any additional administrative or other expense related to the overhead incurred by the Tribe or Tribal contractor in connection with the operation of the Federal program, function, service, or activity pursuant to the contract

CSC POLICY

Indirect CSC and Relationship with Indirect Cost Rates

- Awardees with Negotiated IDC Rates:
 - The amount of indirect costs expected to be incurred by awardees using rates negotiated with the cognizant Federal agency will be determined by applying the negotiated rate(s) to the appropriate direct cost base amount subject to special provisions relating to any Tribal shares included in the direct cost base
 - Calculating and attaining an approved Indirect Cost Rate allows the Nation to recover Indirect Contract Support Costs

BUDGET INSTRUCTIONS AND POLICIES MANUAL (BIPM): ALIGNING WITH INDIRECT COST AUTHORITY AND RULES

- The Nation's Budget Instructions and Policies Manual guides personnel in understanding the IDC rate and the impact on the budgetary process
- OMB shall provide the indirect cost (IDC) recovery allocations or the lapse fund amounts, if any to be used by eligible programs in the preparation of their budgets. IDC funds can only be allocated to and budgeted by those office and programs eligible to receive these funds based upon the approved IDC Rate.
 - Let's define what **Indirect Cost Recovery (IDC)** is: Funds reimbursed to the Navajo Nation by the Grantor to defray the cost of central support services provided on grants awarded to the Navajo Nation
 - Let's define what an **IDC Rate** is: A rate used to budget for recovery of IDC funds in the grant application and grant award. Recovery is based on the rate accepted by the Grantor and included in the Grant Agreement. Pursuant to 2 CFR Part 225 IDC rate negotiated with cognizant federal agency is used to collect IDC on federal awards.

BUDGET INSTRUCTIONS AND POLICIES MANUAL (BIPM):

ALIGNING WITH INDIRECT COST AUTHORITY AND RULES

How to Budget Recovery of IDC Funds:

1. Obtain the latest negotiated and approved IDC Rate. The approved rate is available via the OMB website
2. Understand the Formula:
 - Budget for IDC Recovery = IDC Base – [**IDC Base**/(1 + IDC Rate*)]
 - **IDC Base** = Total Funds Awarded less exclusions and pass-through which include: All assistance payments e.g. Welfare Assistance, Scholarship, TANF and WIA Participants. All Transaction expensed in the 9xxxx cost category. Subcontracts e.g., construction projects i.e., power/waterline, building, etc. third party service providers under P.L. 93-638 BIA/IIIS, etc. Professional Service Contracts used by Navajo Nation as a procurement contract does not qualify as a pass-through
3. The amount of IDC allocated to a program will be in addition to allocated General Funds and Other available Navajo Nation Funds. The cumulative amount will serve as the program's base budget

*IDC Rate is defined on previous slide

PREPARING THE INDIRECT COST RATE (IDC RATE)

- **Understanding the terminology: What is an indirect cost rate proposal?**
 - ❖ An **indirect cost rate proposal** is the documentation prepared by an organization requesting an indirect cost rate. This package normally includes the proposal, related audited financial statements, and other supporting detail such as general ledger, trial balance, etc.
 - The process begins by reconciling all provided financial data to the audited financial statements.

PREPARING THE INDIRECT COST RATE (IDC RATE)

- Object Code Reconciliation:
 - ❖ Financial data organized by object code allows for the identification of pass-through funds, capital expenditures, matching funds, etc.
 - ❖ The data can then be organized properly and assigned to the respective indirect cost pool if applicable.
 - **What is an indirect cost pool?**
 - The indirect cost pool is the accumulated costs that jointly benefit two or more programs or other cost objectives. Indirect cost pool expenditures typically include: Administrative salaries and fringe benefits associated with overall financial and organizational administration; operation and maintenance costs for facilities and equipment; and payroll and procurement services

PREPARING THE INDIRECT COST RATE (IDC RATE)

After the financial data is reconciled to the audited financial statements, and object code reconciliation has been performed, it's time to chose how to calculate:

- Two basic methods for calculating indirect cost rates—the simplified method and the multiple rate method.
 - ❖ **Simplified Method:** When the recipients indirect costs benefit its major functions to approximately the same degree, the simplified method is a good choice
 - ❖ **Multiple Rate Method:** When the recipients indirect costs benefit its major functions in varying degrees, the simplified method is a good choice

PREPARING THE (IDC RATE): SIMPLIFIED METHOD

Steps Involved in Calculating a Rate Under the Simplified Method

- Adjust indirect costs for the period by eliminating any costs directly reimbursed through a Federal award awarded specifically for that purpose. For example, if a construction grant was received, then no depreciation or use allowance should be included in the indirect cost pool. Likewise, remove any administrative salaries included in the pool that were funded as direct in a grant. The pool also must be adjusted for any A-87 unallowable and capital expenditures. Use allowances should be computed and added to the pool along with any CSCAP allocations.
- Adjust direct costs by eliminating flow-through funds and capital expenditures. Compute and add use allowances.
- Divide the total allowable indirect costs (net of applicable credits) by an equitable direct cost base, e.g. salaries and wages or modified total direct costs.

PREPARING THE (IDC RATE): MULTIPLE RATE METHOD

Steps Involved in Calculating a Rate Under the Multiple Rate Method

- Classify departmental indirect costs into functional cost groupings (cost pools) which benefit divisions of the agency in significantly different proportions.
- Select appropriate bases for distribution of each classified pool of indirect costs.
- Distribute each classified pool to the benefitting division.
- Calculate an indirect cost rate for each division of the agency by relating the total indirect costs allocated to that division to that unit's direct cost base.

SUBMITTING THE IDC RATE PROPOSAL

A cognizant agency may require additional data, depending on the circumstances, but each indirect cost proposal must include, at a minimum:

1. The rates proposed, including subsidiary work sheets and other relevant data, cross-referenced and reconciled to the financial data.
2. For allocated central service costs, the summary table included in the approved central service cost allocation plan, unless otherwise available to the funding agency. The summary schedule from the approved central service cost allocation plan is frequently needed because the Federal agency that is cognizant for a departmental indirect cost rate proposal may be different from the one that is cognizant for the central service plan for the overall governmental unit.
3. A copy of the financial data upon which the rate is based.
4. The approximate amount of direct base costs incurred under Federal awards, broken out between salaries and wages and other direct costs. The cognizant agency will use the breakdown between salaries and wages and other direct costs within the direct base costs to determine whether to establish the resulting indirect cost rate on the basis of salaries and wages or modified total direct costs.
5. A chart showing the organizational structure of the agency during the period for which the proposal applies, along with a functional statement(s) noting the duties and/or responsibilities of all units that comprise the agency. The organizational chart that is submitted with the indirect cost rate proposal should be accompanied by a narrative statement.
6. Indirect cost rates, whether submitted to a Federal cognizant agency or maintained on file by the governmental unit, must be certified by the governmental unit using the Certificate of Indirect Costs

DIRECT COST BASE

- **What is a “Base” or “direct cost base”:** The accumulated direct costs (usually (a) total direct salaries and wages with or without fringe benefits or (b) total direct costs exclusive of any extraordinary or distorting expenditures) used to distribute indirect costs to individual federal awards. The direct cost base selected should result in each award bearing a fair share of the indirect costs in reasonable relation to the benefits received from those costs.
- There are three options for establishing the Base:
 1. Total Direct Salaries and Wages excluding Fringe Benefits (S&W)
 2. Total Direct Salaries and Wages, including Fringe Benefits (SWF)
 3. Modified Total Direct Costs (MTDC) Base
 - See Next Slide for more detail on the MTDC

DIRECT COST BASE VS. MODIFIED TOTAL DIRECT COST BASE

- MTDC exclude "any extraordinary or distorting expenditures," usually capital expenditures, subawards, contracts, and passthrough funds
 - The direct cost base selected should result in each award bearing a fair share of indirect costs in reasonable relation to the benefits received from those indirect costs

MONITORING THE INDIRECT COST POOL

- As mentioned, the indirect cost pool is the accumulated costs that jointly benefit two or more programs or other cost objectives
 - So how do we monitor these pools?
 - Typically salaries and wages come to mind. Personnel Activity Reports or equivalent documentation is required for employees who work on multiple activities. These reports must:
 - Be prepared at least monthly;
 - Be signed by the employee;
 - Account for the total activity for which each employee is being compensated; and,
 - Reflect an after-the-fact distribution of the work that has actually been completed by each employee

CARRYFORWARD CALCULATION



Carryforward Examples

- What if we've recovered some of the indirect costs, but not all?
 - The unrecovered costs can be carried forward to future years.
 - Therefore, future rates can account for under-recoveries experienced in the past.
 - The IBC provides a variety of carryforward calculation templates to better understand the impact of the calculation.

CARRYFORWARD CALCULATION IMPACT

- A basic question could be asked, “is the rate too high or too low?”
 - The is, it depends on your program
 - If your program falls under P.L. 93-638 the answer could be that high rates are OK as these programs receive “add on funding”
 - However, for fixed awards, high rates could have a negative impact

THANK YOU !!

Moss Adams is proud of our professional relationship with the Navajo Nation and would like to thank each of you for attending this presentation.